

**REPORT OF THE AUDIT OF THE
MADISON COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2006

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Kent Clark, Madison County Judge/Executive
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Madison County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Madison County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Madison County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Madison County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

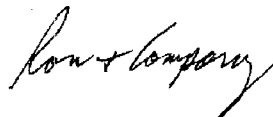
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(Continued)

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the budgetary comparison information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madison County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2006 on our consideration of Madison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted

A handwritten signature in cursive script, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC

Audit fieldwork completed-
August 18, 2006

MADISON COUNTY OFFICIALS
Fiscal Year Ended June 30, 2006

Fiscal Court Members:

Kent Clark	County Judge/Executive
Larry Combs	Magistrate
Billy Ray Hughes	Magistrate
Roger D. Barger	Magistrate
William H. Tudor	Magistrate

Other Elected Officials:

Marc Robbins	County Attorney
Ron Devere	Jailer
William E. Gabbard	County Clerk
Linda Cates	Circuit Court Clerk
Cecil Cochran	Sheriff
Stephen M. Smith	Property Valuation Administrator
James A. Cornelison	Coroner

Appointed Personnel:

Glenna Baker	County Treasurer
Shirl Gross	Finance Officer/ Occupational Tax Collector

Management's Discussion and Analysis **June 30, 2006**

The financial management of Madison County, Kentucky offers readers of Madison County's financial statements this narrative overview and analysis of the financial activities of Madison County for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Madison County's governmental activities had net assets of \$23,850,257 as of June 30, 2006. Total debt principal as of June 30, 2006 was \$12,379,839 with \$366,569 due within one year.
- The governmental activities total net assets increased by \$3,341,636 from the prior year. This increase is primarily due to increases in capital assets.

Overview of Financial Statements

This management discussion and analysis is intended to serve as an introduction to Madison County's basic financial statements. Madison County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Madison County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on Madison County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Madison County is improving or deteriorating.

**MADISON COUNTY FISCAL COURT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006
(Continued)**

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Madison County's governmental activities include general government, protection to persons and property, health and sanitation, social services, recreation and culture, roads, debt service, capital projects, and administration. Madison County has one business type activity – Jail Canteen.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Madison County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Madison County can be divided into broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**MADISON COUNTY FISCAL COURT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006
(Continued)**

Madison County maintains seven (7) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major funds and in total for the major funds.

Major Funds:

- General Fund
- Road Fund
- CSEPP Fund

Non-Major Fund:

- LGEA Fund
- E-911 Fund
- Jail Fund
- CDBG Fund

Madison County adopts an annual appropriated budget. A budgetary comparison schedule has been provided for all major funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The propriety fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statement. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**MADISON COUNTY FISCAL COURT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006
(Continued)**

**Table 1
Madison County's Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Assets						
Current and other assets	10,629,926	8,550,562	75,616	80,164	10,705,542	8,630,726
Capital assets	22,518,713	27,679,534	0	0	22,518,713	27,679,534
Total Assets	33,148,639	36,230,096	75,616	80,164	33,224,255	36,310,260
Liabilities						
Current and other liabilities	260,179	366,569	0	0	260,179	366,569
Long-term Liabilities	12,379,839	12,013,270	0	0	12,379,839	12,013,270
Total Liabilities	12,640,018	12,379,839	0	0	12,640,018	12,379,839
Net Assets						
Invested in capital assets, net of related debt	9,878,695	15,299,695	0	0	9,878,695	15,299,695
Restricted	0	0	0	0	0	0
Unrestricted	10,608,721	8,550,562	75,616	80,164	10,684,337	8,630,726
Total Net Assets	20,508,621	23,850,257	75,616	80,164	20,584,237	23,930,421

Financial Analysis of the County's Funds. As we noted earlier, Madison County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Activities Overview. The focus of Madison County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

As of the end of June 2006 fiscal year, the combined ending fund balances of County governmental funds were \$8,550,562.

**MADISON COUNTY FISCAL COURT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006
(Continued)**

The County has three (3) major governmental funds and four (4) non-major funds.

Major Funds:

- General Fund
- Road Fund
- CSEPP Fund

Non-Major Fund:

- LGEA Fund
- E-911 Fund
- Jail Fund
- CDBG Fund

1. The General Fund is the chief operating fund of Madison County. At the end of June 30, 2006 fiscal year, the General Fund had a total fund balance of \$7,171,667. The County received \$5,843,767 in real and personal property, motor vehicle, occupational, and other taxes for approximately 61% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 39% of revenues.
2. The Road Fund is the fund related to County road construction and maintenance. The Road Fund had \$59,993 total fund balance as of June 30, 2006. The county received \$1,098,395 in County Road Aid from the state for approximately 41% of the county's road revenues. The remaining 59% of road revenues consist of various other state payments and miscellaneous revenues. The fiscal year 2006 expenditures for the Road Fund were \$3,023,479, of which \$1,222,168 was spent on asphalt and rock.
3. The CSEPP Fund (Chemical Stockpile Emergency Preparedness Program) is a federal funded program used for Madison County to plan and respond to any accidents associated with the storage and disposal of the chemical weapons located at the Bluegrass Army Depot. The fund had a balance of \$465,167 as of June 30, 2006. A portion of these funds are collected and used to maintain the current 800 mega-hertz radios used by all emergency personnel throughout the county.
4. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance of \$20,027 as of June 30, 2006. The Jail Fund received \$1,022,840, primarily for housing prisoners and for prisoner allotment. The General Fund only contributed \$195,000 to jail operations, of which \$375,000 had been budgeted for transfer. This was a decrease of \$30,100 in General Fund contributions from fiscal year 2005. The high population of state inmates and efficient management of the detention center allowed for the decrease in funding from the General Fund.
5. The Local Government Economic Assistance Fund had an unreserved fund balance of \$824,450 as of June 30, 2006. Mineral Severance Tax, Coal Impact Tax, and interest earned provide the total revenues for the LGEA Fund, which were \$266,380. These funds are restricted in use.

**MADISON COUNTY FISCAL COURT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006
(Continued)**

6. The E-911 Fund is used to operate the 911 dispatch center located at the Emergency Operations Center. This fund had a balance of \$9,258 as of June 30, 2006. Revenue for this fund is generated from 911 taxes from telecommunications companies. With the rising cost of communications equipment, the counties 911 rate of .83 cents, the lowest in the state, does not generate enough revenue to offset the cost of services to the community. Therefore, the General Fund must transfer the difference, which amounted to \$150,000 in the fiscal year 2006.
7. The CDBG Fund is federal monies received for the Community Development Block Grant of \$1,000,000 awarded to Madison County for the Northern Madison County Sewer Project. This program is set up on reimbursement funding. As of June 30, 2006 Madison County has spent and received \$17,500 of the CDBG grant.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements. As of the end of June 2006 fiscal year, the ending fund balances of County proprietary funds were \$80,164.

Madison County has one (1) business-type proprietary funds.

Business-type Proprietary Funds:

- Jail Canteen

1. The Jail Canteen Fund had a balance of \$80,164, which amounts are to be used for inmate purposes.

General Fund Budgetary Highlights. Madison County's budget was amended during the fiscal year 2006 increasing the budgeted amount by \$903,563. Budget amendments were made to include surplus unanticipated revenues and expenditures for various grants awarded, state prisoner reimbursement, and county road aid.

Capital Assets and Debt Administration..

Capital Assets. Madison County's investment in capital assets for its government and business type activities as of June 30, 2006, amount to \$27,679,534 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, construction in progress, improvements to land other than buildings, equipment, vehicles, furniture and office equipment, and current infrastructure additions.

The Madison County Fiscal Court's Capital Assets Threshold includes only assets valued at \$10,000 dollars or above.

Major capital asset events during the 2006 fiscal year included road improvements and resurfacing, vehicle and equipment purchases, and construction in progress of the new courthouse annex.

Additional information of the County's capital assets can be found in Note 3 of this report.

**MADISON COUNTY FISCAL COURT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2006
(Continued)**

**Table 2
Madison County's Capital Assets, Net of
Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Infrastructure	7,730,638	8,717,411			7,730,638	8,717,411
Land	3,279,548	3,385,746			3,279,548	3,385,746
Buildings & Improvements	7,439,631	7,936,373			7,439,631	7,936,373
Equipment	814,193	1,101,002			814,193	1,101,002
Vehicles	1,185,544	1,297,927			1,185,544	1,297,927
Constuction in progress	2,069,159	5,241,075			2,069,159	5,241,075
Total Net Capital Assets	22,518,713	27,679,534			22,518,713	27,679,534

Long-Term Debt. At the end of 2006 fiscal year, Madison County had a total long-term debt principal outstanding of \$12,379,839. The amount of this debt due within the next year is \$366,569. This outstanding debt is for the building construction, road and fire equipment, land purchases, and building renovations. The County did not obtain any new debt during the fiscal year. This debt is described in Note 4 of the notes to the financial statement.

Requests for Information. This financial report is designed to provide a general overview of Madison County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Madison County Treasurer, 101 West Main Street, Richmond, KY 40475.

MADISON COUNTY
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS

June 30, 2006

MADISON COUNTY
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 4,578,196	\$ 80,164	\$ 4,658,360
Investments	3,972,366		3,972,366
Total Current Assets	8,550,562	80,164	8,630,726
Noncurrent Assets:			
Capital Assets-Net of Accumulated Depreciation			
Land	3,385,746		3,385,746
Construction in Progress	5,241,075		5,241,075
Buildings and Improvements	7,936,373		7,936,373
Other Equipment	1,101,002		1,101,002
Vehicles and Equipment	1,297,927		1,297,927
Infrastructure Assets-Net of Depreciation	8,717,411		8,717,411
Total Noncurrent Assets	27,679,534		27,679,534
Total Assets	36,230,096	80,164	36,310,260
LIABILITIES			
Current Liabilities:			
Financing Obligations	226,569		226,569
Bonds Payable	140,000		140,000
Total Current Liabilities	366,569		366,569
Noncurrent Liabilities:			
Financing Obligations	1,753,270		
Bonds Payable	10,260,000		10,260,000
Total Noncurrent Liabilities	12,013,270		12,013,270
Total Liabilities	12,379,839		12,379,839
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	15,299,695		15,299,695
Unrestricted	8,550,562	80,164	8,630,726
Total Net Assets	\$ 23,850,257	\$ 80,164	\$ 23,930,421

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS

For The Year Ended June 30, 2006

MADISON COUNTY
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

Fiscal Year Ended June 30, 2006

Functions/Programs Reporting Entity	Program Revenue Received			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Totals
Primary Government:						
Governmental Activities:						
General Government	\$1,538,593	\$	\$ 1,335,436	\$ (203,157)	\$	\$ (203,157)
Protection to Persons and Property	6,005,907	136,008	4,465,507	(1,404,392)		(1,404,392)
General Health and Sanitation	616,714		16,000	(600,714)		(600,714)
Social Services	155,302			(155,302)		(155,302)
Recreation and Culture	405,458	228,257		(177,201)		(177,201)
Roads	1,801,430	647,177	2,264,361	1,110,108		1,110,108
Debt Service (Interest)	549,276			(549,276)		(549,276)
Capital Projects	869,615			(869,615)		(869,615)
Administration	1,938,898			(1,938,898)		(1,938,898)
Total Government Activities	13,881,193	1,011,442	8,081,304	(4,788,447)		(4,788,447)
Business-type Activities:						
Jail Canteen	348,132	352,680		4,548	4,548	4,548
Total Business-type Activities	348,132	352,680		4,548	4,548	4,548
Total Primary Government	14,229,325	1,364,122	8,081,304	(4,788,447)	4,548	(4,783,899)
General Revenues:						
Taxes:						
Real Property Taxes				2,148,556		2,148,556
Personal Property Taxes				231,107		231,107
Motor Vehicle Tax				411,146		411,146
Occupational Taxes				2,147,532		2,147,532
E-911 Taxes				313,974		313,974
Others Taxes				905,426		905,426
Excess Fees				681,094		681,094
Licenses and Permits				359,106		359,106
Unrestricted Investment Earnings				346,547		346,547
Other Revenue				585,595		585,595
Total General Revenues				8,130,083		8,130,083
Changes in Net Assets				3,341,636	4,548	3,346,184
Net Assets-Beginning (Restated)				20,508,621	75,616	20,584,237
Net Assets-Ending				\$ 23,850,257	\$ 80,164	\$ 23,930,421

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

June 30, 2006

MADISON COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>CSEPP Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 3,199,301	\$ 59,993	\$ 465,167	\$ 853,735	\$ 4,578,196
Investments	<u>3,972,366</u>				<u>3,972,366</u>
Total Assets	<u>\$ 7,171,667</u>	<u>\$ 59,993</u>	<u>\$ 465,167</u>	<u>\$ 853,735</u>	<u>\$ 8,550,562</u>
FUND BALANCES					
Reserved For:					
Encumbrances	\$ 51,982	\$ 96	\$ 1,245	\$ 24,812	\$ 78,135
Unreserved:					
General Fund	7,119,685				7,119,685
Special Revenue Funds		<u>59,897</u>	<u>463,922</u>	<u>828,923</u>	<u>1,352,742</u>
Total Fund Balances	<u>\$ 7,171,667</u>	<u>\$ 59,993</u>	<u>\$ 465,167</u>	<u>\$ 853,735</u>	<u>\$ 8,550,562</u>

**Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Assets:**

Total Fund Balances	\$ 8,550,562
Amounts reported for Government Activities in the Statement Of Net Assets are difference because:	
Capital Assets Used in Government Activities are not Financial Resources and therefore are not reported in the funds.	34,006,367
Accumulated Depreciation	(6,326,833)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,979,839)
Bonded Debt	<u>(10,400,000)</u>
Net Assets Of Government Activities	<u>\$ 23,850,257</u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

For The Year Ended June 30, 2006

MADISON COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>CSEPP Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 5,843,767			\$ 313,974	\$ 6,157,741
Excess Fees	681,094				681,094
Licenses and Permits	359,106				359,106
Intergovernmental	1,721,011	2,004,537	2,701,646	1,654,110	8,081,304
Charges for Services	228,257	647,176	26,508	109,501	1,011,442
Miscellaneous	456,254	3,281	77,018	49,042	585,595
Interest	336,877	2,665		7,005	346,547
Total Revenue	<u>9,626,366</u>	<u>2,657,659</u>	<u>2,805,172</u>	<u>2,133,632</u>	<u>17,222,829</u>
EXPENDITURES					
General Government	1,865,492				1,865,492
Protection to Persons and Property	1,652,601		2,509,554	1,924,712	6,086,867
General Health and Sanitation	632,377				632,377
Social Services	155,302				155,302
Recreation and Culture	736,405				736,405
Roads	20,000	2,791,822			2,811,822
Debt Service:					
Principal	260,179				260,179
Interest	549,276				549,276
Capital Projects	4,248,075			17,500	4,265,575
Administration	1,307,164	231,657	89,055	311,022	1,938,898
Total Expenditures	<u>11,426,871</u>	<u>3,023,479</u>	<u>2,598,609</u>	<u>2,253,234</u>	<u>19,302,193</u>
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>(1,800,505)</u>	<u>(365,820)</u>	<u>206,563</u>	<u>(119,602)</u>	<u>(2,079,364)</u>
Other Financing Sources (Uses)					
Transfers From Other Funds		340,000		345,000	685,000
Transfer To Other Funds	<u>(685,000)</u>				<u>(685,000)</u>
Total Other Financing Sources (Uses)	<u>(685,000)</u>	<u>340,000</u>		<u>345,000</u>	
Net Change in Fund Balances	(2,485,505)	(25,820)	206,563	225,398	(2,079,364)
Fund Balances-Beginning (Restated)	<u>9,657,172</u>	<u>85,813</u>	<u>258,604</u>	<u>628,337</u>	<u>10,629,926</u>
Fund Balances-Ending	<u>\$ 7,171,667</u>	<u>\$ 59,993</u>	<u>\$ 465,167</u>	<u>\$ 853,735</u>	<u>\$ 8,550,562</u>

The accompanying notes are an integral part of the financial statements.

**MADISON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

MADISON COUNTY
RECONCILIATION OF THE STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (2,079,364)
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	6,324,892
Depreciation Expense	(1,164,071)

Debt principal payments are expended in the Governmental Funds as a use of current year financial resources however, these transactions have no effect on net assets.

Finance Obligations - principal payments	225,179
General Obligation Bonds- principal payments	<div style="border-top: 1px solid black; display: inline-block; width: 100%;">35,000</div>

Change in Net Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ 3,341,636</div>
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The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS

June 30, 2006

MADISON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND -
MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 80,164
Total Current Assets	<u>80,164</u>
Net Assets	
Unrestricted	80,164
Total Net Assets	<u><u>\$ 80,164</u></u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2006

MADISON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenue	
Canteen Receipts	\$ 352,680
Total Operating Revenue	<u>352,680</u>
Operating Expenses	
Cost of Sales	264,182
Educational and Recreational	9,639
Inmate Medical	21,614
Personnel Cost	45,740
Refunds	6,957
Total Operating Expenses	<u>348,132</u>
Operating Income (Loss)	<u>4,548</u>
 Total Net Assets - Beginning	 <u>75,616</u>
Total Net Assets- Ending	<u><u>\$ 80,164</u></u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS
For The Year Ended June 30, 2006

MADISON COUNTY
STATEMENT OF CASH FLOWS-
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Fiscal Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 352,680
Cost of Sales	(264,182)
Educational and Recreational	(9,639)
Inmate Medical Payments	(21,614)
Personnel Cost	(45,740)
Refunds	(6,957)
Net Cash Provided By Operating Activities	<u>4,548</u>
Net Increase in (Decrease) in Cash and Cash Equivalent	4,548
Cash and Cash Equivalent-July 1, 2005	<u>75,616</u>
Cash and Cash Equivalents-June 30, 2006	<u><u>\$ 80,164</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transaction, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Madison County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14 and GASB 39, there are no component units, which merit consideration as part of the reporting entity.

C. Madison County Constitutional Elected Officials

The Kentucky constitution provides for election of the above officials from the geographic area constituting Madison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Madison County, Kentucky.

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internal dedicated resources such as taxes and other unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund- This fund is to be used to improve Madison County's capacity to plan for and respond to accidents associated with storage and ultimate disposal of chemical warfare materials located at the Bluegrass Army Depot. The U.S. Congress appropriates funding for reimbursement of CSEPP expenditures. CSEPP funds may not be commingled with other funds.

The primary government also has the following non-major funds: Jail Fund; Local Government Economic Assistance Fund; Community Development Block Grant Fund; and E-911 Fund.

Special Revenues Funds:

The Road Fund, Jail Fund, CSEPP Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund and E-911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Proprietary Fund

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issues after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The government reports the following major proprietary fund:

Jail Canteen Fund-the canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from sales of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (road and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings	10,000	10-75
Building Improvements	10,000	10-75
Machinery and Equipment	10,000	3-25
Vehicles	10,000	3-5
Infrastructure	10,000	10-50

G. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and capital leases are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Account Policies (Continued)

I Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. A formal budget is not adopted for the Jail Canteen Fund.

The State Local Finance Officer does not require the Jail Canteen fund to be budgeted because the fiscal court does not approve the expenditures made from this fund.

The County Judge/executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits and Investments

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments

As of June 30, 2006, the County had the following investments:

Types of Investments	Maturity Date	Fair Value (Cost)	Rating	Concentration Percentage
Federal Home Loan Mortgage Corp Medium Term Note	3/17/2023	\$ 321,489	AAA	8.09%
Federal Home Loan Mortgage Corp Medium Term Note	8/15/2028	330,000	AAA	8.31%
Federal National Mortgage Association Medium Term Note	3/6/2023	328,000	AAA	8.26%
Federal National Mortgage Association Medium Term Note	2/5/2024	497,500	AAA/Aaa	12.52%
Federal National Mortgage Association Medium Term Note	3/4/2024	495,000	AAA/Aaa	12.46%
Federal Home Loan Banks Consolidated Bonds	7/10/2023	489,605	AAA/Aaa	12.33%
Federal Home Loan Banks Consolidated Bonds	3/23/2022	476,645	AAA/Aaa	12.00%
Federal Home Loan Banks Consolidated Bonds	6/9/2020	330,962	AAA/Aaa	8.33%
First Horizon MTG Passthru TR Series 2002-4 Class 1-A-5	9/25/2034	155,040		3.90%
CWALT Incorporated Mortgage Passthru Cert2005-52CB 1-A-3	11/25/2035	298,125		7.50%
Consumer Energy Company Insured Quarterly Notes	4/15/2035	<u>250,000</u>	AAA/Aaa	6.29%
Totals		<u><u>\$ 3,972,366</u></u>		

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Interest Rate Risk

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

Credit Risk

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency. Banker's acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing in no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, U.S. government obligations or obligations guaranteed by the U.S. government are not subject to investment credit risk or concentration of credit risk. See the above chart for credit ratings for each individual investment type.

Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. See the above chart for investments that exceed five percent or more of the total investments for the County.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2006, the County's investments were exposed to custodial credit risk.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 3,279,548	\$ 106,198	\$	\$ 3,385,746
Construction in Progress	2,069,159	3,486,867	(314,941)	5,241,075
Capital Assets Not Being Depreciated:	5,348,707	3,593,065	(314,941)	8,626,821
Capital Assets Being Depreciated:				
Buildings	9,286,833	679,258		9,966,091
Other Equipment	1,427,957	457,494		1,885,451
Vehicles and Road Equipment	2,005,507	298,701		2,304,208
Infrastructure	9,612,471	1,611,325		11,223,796
Capital Assets Being Depreciated	22,332,768	3,046,778		25,379,546
Less Accumulated Depreciation For:				
Building	(1,847,202)	(182,516)		(2,029,718)
Other Equipment	(613,764)	(170,685)		(784,449)
Vehicles and Road Equipment	(819,963)	(186,318)		(1,006,281)
Infrastructure	(1,881,833)	(624,552)		(2,506,385)
Total Accumulated Depreciation	(5,162,762)	(1,164,071)		(6,326,833)
Total Capital Assets Being Depreciated, Net	17,170,006	1,882,707		19,052,713
Government Activities Capital Assets, Net	<u>\$ 22,518,713</u>	<u>\$ 5,475,772</u>	<u>\$(314,941)</u>	<u>\$ 27,679,534</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities

General Government	\$ 124,297
Protection to Persons and Property	272,488
General Health and Sanitation	6,952
Recreation and Culture	25,200
Roads, Including Depreciation of General Infrastructure Assets	<u>735,134</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 1,164,071</u>

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long Term Debt

A. General Obligation Bonds, Series 2001

Bonds outstanding of the General Fund were \$3,295,00 of General Obligation Funding and Improvement Bonds issued on August 1, 2001, with interest rates of 4.15% through 4.875% payable semiannually. The total issue of bonds was \$3,320,000 with principal paid April 1. The bonds fully amortize by April 1, 2021. Future principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2007	\$ 160,450	\$ 5,000
2008	160,242	5,000
2009	160,035	5,000
2010	159,828	5,000
2011	159,620	5,000
2012-2016	794,624	25,000
2017-2021	788,529	3,245,000
Total	<u>\$ 2,383,328</u>	<u>\$ 3,295,000</u>

B. General Obligation Bonds, Series 2004

Bonds outstanding of the General Fund were \$1,605,000 of General Obligation Public Project Bonds issued on April 1, 2004, with interest rates of 1.50% through 4.60% payable semiannually. The total issue of the bonds was \$1,635,000 with principal paid annually March 1. The bonds fully amortize by March 1, 2034. Future principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2007	\$ 66,887	\$ 35,000
2008	66,258	35,000
2009	65,505	35,000
2010	64,648	35,000
2011	63,702	35,000
2012-2016	299,480	205,000
2017-2021	257,002	245,000
2022-2026	197,480	305,000
2027-2031	120,870	390,000
2032-2034	26,680	285,000
Total	<u>\$ 1,228,512</u>	<u>\$ 1,605,000</u>

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-Term Debt (Continued)

C. General Obligation Improvement Bonds, Series 2004B

On October 20, 2004, the Madison County Fiscal Court issued \$5,500,000 of General Obligation Improvement Bonds with interest rates of 2.00% through 4.65% payable annually. The proceeds of the bonds were to be used for the construction of a new courthouse annex. The bonds fully amortize by October 1, 2036. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2007	\$ 227,767	\$ 100,000
2008	225,718	100,000
2009	223,407	105,000
2010	220,663	110,000
2011	217,528	110,000
2012-2016	1,028,772	625,000
2017-2021	899,699	755,000
2022-2026	724,245	930,000
2027-2031	486,020	1,180,000
2032-2036	178,909	1,485,000
Total	<u>\$ 4,661,523</u>	<u>\$ 5,500,000</u>

D. Financing Obligations - HVAC System

On February 12, 1998, the Madison County Fiscal Court entered into a 20-year leasing agreement with the KADD Financing Trust for the replacement of the HVAC system in the courthouse and related improvements and replacements. Principal payments are due annually by November 20. The principal outstanding as of June 30, 2006 was \$525,000. The schedule below sets forth Madison County's future principal and interest payments:

<u>Fiscal Year Ended June 30</u>	<u>Principal Payments</u>	<u>Scheduled Interest and Bank Charges</u>	<u>Total Payment</u>	<u>Less AOC Rental Amount*</u>	<u>Net Due From County</u>
2007	\$ 30,000	\$ 27,968	\$ 59,968	\$ (23,696)	\$ 34,272
2008	35,000	26,326	61,326	(23,696)	37,630
2009	35,000	24,559	59,559	(23,696)	35,863
2010	40,000	22,615	62,615	(23,696)	38,919
2011	40,000	20,495	60,495	(23,696)	36,799
2012-2016	230,000	67,494	297,494	(118,480)	179,014
2017-2018	<u>115,000</u>	<u>7,521</u>	<u>122,521</u>	<u>(47,392)</u>	<u>75,129</u>
Total	<u>\$525,000</u>	<u>\$ 196,978</u>	<u>\$721,978</u>	<u>\$ (284,352)</u>	<u>\$ 437,626</u>

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-Term Debt (Continued)

* In accordance with a sublease agreement between Administrative Office of the Courts (AOC) and the Madison County Fiscal Court dated March 1, 1998, AOC committed itself to participate in providing part of the cost of replacing the HVAC system in the courthouse and related improvements through use allowance payments.

E. Financing Obligations - Other

1) Fire Station – KACo Financing Trust

On August 6, 1997, the Madison County Fiscal Court entered into a 15-year leasing agreement with KACo Leasing Trust for the construction of a fire station. Principal payments are due monthly. The balance of principal due on June 30, 2006, was \$249,839.

2) Family Court Facilities Project – KADD Financing Trust

On July 20, 2000, the Madison County Fiscal Court entered into a 17-year leasing agreement with KADD Financing Trust for the construction of the family court facilities project. Principal payments are due annually by May 20. The balance of principal due on June 30, 2006, was \$900,000.

3) Road/Fire Equipment – KADD Financing Trust

On July 31, 2002, the Madison County Fiscal Court entered into a 7-year leasing agreement with KADD Financing Trust. The proceeds of the lease were used to refinance a previous lease dated April 21, 1999 and to purchase additional road and fire equipment. Principal payments are due annually by April 20. The balance of principal due on June 30, 2006, was \$305,000.

The following is a schedule of future minimum lease payments as of June 30, 2006.

Fiscal Year Ended June 30	Fire Station (KACO)	Family Court Facilities (KADD)	Road/Fire Equipment (KADD)	Total
2007	\$ 48,346	\$ 112,975	\$ 113,420	\$ 274,741
2008	47,951	114,839	109,320	272,110
2009	47,517	116,440	110,120	274,077
2010	47,074	112,783		159,857
2011	46,610	114,123		160,733
2012-2016	53,774	574,526		628,300
2017		118,355		118,355
Total Minimum Lease Payment	291,272	1,264,041	332,860	1,888,173
Less: Interest and Fees	41,433	364,041	27,860	433,334
Present Value of Minimum Lease Payments	<u>\$ 249,839</u>	<u>\$ 900,000</u>	<u>\$ 305,000</u>	<u>\$ 1,454,839</u>

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-Term Debt (Continued)

F. Changes In Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Financing Obligations	\$ 2,205,018	\$	\$ 225,179	\$ 1,979,839	\$ 226,569
General Obligation Bonds	10,435,000		35,000	10,400,000	140,000
Total Governmental Activities- Long-Term Liabilities	<u>\$12,640,018</u>	<u>\$</u>	<u>\$ 260,179</u>	<u>\$ 12,379,839</u>	<u>\$ 366,569</u>

Note 5. Interest On Long-Term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$92,889 in interest on financing obligations and \$456,387 in interest on bonds.

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2006, Madison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Prior Period Adjustments

The General Fund beginning fund balance of \$9,657,172 includes prior year adjustments of \$21,060 for prior year voided checks. The Jail and CSEPP Funds beginning balances of \$33,585 and \$258,604, respectively, includes prior year adjustments of \$7 and \$137, respectively for prior year voided checks. These prior period adjustments also resulted in an increase of \$21,204 to beginning governmental activities net assets.

MADISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

MADISON COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information-Modified Cash Basis

For The Year Ended June 30, 2006

GENERAL FUND				
	Budgeted Amounts		Actual Amount, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 5,535,100	\$ 5,535,100	\$ 5,843,767	\$ 308,667
Excess Fees	605,000	605,000	681,094	76,094
Licenses and Permits	1,316,000	1,316,000	359,106	(956,894)
Intergovernmental Revenues	2,913,381	3,816,944	1,721,011	(2,095,933)
Charges for Services	185,000	185,000	228,257	43,257
Miscellaneous	464,500	464,500	456,254	(8,246)
Interest	300,000	300,000	336,877	36,877
Total Revenues	11,318,981	12,222,544	9,626,366	(2,596,178)
EXPENDITURES				
General Government	1,511,906	1,992,759	1,865,492	127,267
Protection to Persons and Property	1,628,836	1,973,930	1,652,601	321,329
General Health and Sanitation	514,291	686,925	632,377	54,548
Social Services	207,339	252,141	155,302	96,839
Recreation and Culture	533,300	781,202	736,405	44,797
Roads	25,000	25,000	20,000	5,000
Debt Service:				
Principal	260,179	260,179	260,179	-
Interest	888,164	893,764	549,276	344,488
Capital Projects	7,318,000	6,975,377	4,248,075	2,727,302
Administration	1,556,966	1,381,268	1,307,164	74,104
Total Expenditures	14,443,981	15,222,545	11,426,871	3,795,674
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(3,125,000)	(3,000,001)	(1,800,505)	1,199,496
OTHER FINANCING SOURCES (USES)				
Transfers To Other Fund	(875,000)	(875,000)	(685,000)	190,000
Total Other Financing Sources and (Uses)	(875,000)	(875,000)	(685,000)	190,000
Net Changes in Fund Balances	(4,000,000)	(3,875,001)	(2,485,505)	1,389,496
Fund Balance-Beginning	4,000,000	4,000,000	9,657,172	5,657,172
Funding Balance-Ending	\$	\$ 124,999	\$ 7,171,667	\$ 7,046,668

MADISON COUNTY**BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS****Required Supplemental Information-Modified Cash Basis****For The Year Ended June 30, 2006 (Continued)**

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,814,775	\$ 1,982,775	\$ 2,004,537	\$ 21,762
Charge For Services	645,000	645,000	647,176	2,176
Miscellaneous	45,000	45,000	3,281	(41,719)
Interest	1,000	1,000	2,665	1,665
Total Revenues	2,505,775	2,673,775	2,657,659	(16,116)
EXPENDITURES				
Roads	2,467,500	2,837,887	2,791,822	46,065
Administration	488,275	385,888	231,657	154,231
Total Expenditures	2,955,775	3,223,775	3,023,479	200,296
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(450,000)	(550,000)	(365,820)	184,180
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	400,000	400,000	340,000	(60,000)
Total Other Financing Sources and (Uses)	400,000	400,000	340,000	(60,000)
Net Changes in Fund Balances	(50,000)	(150,000)	(25,820)	124,180
Fund Balances Beginning	50,000	50,000	85,813	35,813
Fund Balances-Ending	\$	\$ (100,000)	\$ 59,993	\$ 159,993

MADISON COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information-Modified Cash Basis
For The Year Ended June 30, 2006 (Continued)

CSEEP FUND				
Budgeted Amounts		Actual	Variance with	
Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)	
REVENUES				
Intergovernmental	\$ 2,955,220	\$ 2,955,220	\$ 2,701,646	\$ (253,574)
Charge for Services	40,000	40,000	26,508	(13,492)
Miscellaneous	50,000	50,000	77,018	27,018
Interest	500	500		(500)
Total Revenues	3,045,720	3,045,720	2,805,172	(240,548)
EXPENDITURES				
Protection to Persons and Property	2,844,065	2,949,177	2,509,554	439,623
Administration	251,655	146,543	89,055	57,488
Total Expenditures	3,095,720	3,095,720	2,598,609	497,111
Excess (Deficiency) of Revenues Over				
Expenditures	(50,000)	(50,000)	206,563	256,563
Net Changes in Fund Balances				
Fund Balances Beginning	(50,000)	(50,000)	206,563	256,563
	50,000	50,000	258,604	208,604
Fund Balances-Ending				
	\$	\$	\$ 465,167	\$ 465,167

MADISON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MADISON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

MADISON COUNTY
COMBINING BALANCE SHEET-
NON-MAJOR GOVERNMENTAL FUNDS-CASH BASIS
Other Supplementary Information

June 30, 2006

	Jail Fund	Local Government Economic Assistance Fund	E-911 Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 20,027	\$ 824,450	\$ 9,258	\$ 853,735
FUND BALANCES				
Reserved For:				
Encumbrances	\$ 19,272	\$	\$ 5,540	\$ 24,812
Unreserved:				
Special Revenue Funds	755	824,450	3,718	828,923
Total Fund Balances	\$ 20,027	\$ 824,450	\$ 9,258	\$ 853,735

MADISON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS –
MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

MADISON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Jail Fund	Local Government Economic Assistance Fund	E-911 Fund	Community Development Block Grant Fund	Total Non-Major Governmental Funds
REVENUES					
Taxes	\$	\$	\$ 313,974	\$	\$ 313,974
Intergovernmental	1,376,786	259,824		17,500	1,654,110
Charges For Services	109,501				109,501
Miscellaneous	35,604		13,438		49,042
Interest	183	6,556	266		7,005
Total Revenue	<u>1,522,074</u>	<u>266,380</u>	<u>327,678</u>	<u>17,500</u>	<u>2,133,632</u>
EXPENDITURES					
Protection to Persons and Property	1,495,513		429,199		1,924,712
Capital Projects				17,500	17,500
Administration	<u>235,119</u>		<u>75,903</u>		<u>311,022</u>
Total Expenditures	<u>1,730,632</u>		<u>505,102</u>	<u>17,500</u>	<u>2,253,234</u>
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>(208,558)</u>	<u>266,380</u>	<u>(177,424)</u>		<u>(119,602)</u>
OTHER FINANCING SOURCES (USES)					
Transfers From Other Funds	195,000		150,000		345,000
Total Other Financing Sources (Uses)	<u>195,000</u>		<u>150,000</u>		<u>345,000</u>
Net Change in Fund Balances	(13,558)	266,380	(27,424)		225,398
Fund Balances-Beginning	<u>33,585</u>	<u>558,070</u>	<u>36,682</u>		<u>628,337</u>
Fund Balances-Ending	<u>\$ 20,027</u>	<u>\$ 824,450</u>	<u>\$ 9,258</u>	<u>\$</u>	<u>\$ 853,735</u>

**MADISON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2006

**MADISON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Madison County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Madison County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report of compliance for the audit of the major federal awards programs for Madison County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Madison County reported in Part C of this schedule.
7. The programs tested as major programs were: Chemical Stockpile Emergency Preparedness Program (CSEPP)-CFDA #97.040 and Voting Access for Individuals with Disabilities CFDA #93.617
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. Madison County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM
AUDIT**

None

D. PRIOR YEAR FINDINGS

None

MADISON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

MADISON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

<u>Program Title</u>	<u>Pass-through Entity ID Number</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>
U.S Department of Homeland Security			
<i>Passed through KY Office of Homeland Security</i>			
Advanced Hazardous Material Life Support Training	M-05294577	97.004	\$ 27,972
Chemical Stockpile Emergency Preparedness Program	M-05374698	97.040	2,598,609 ***
Emergency Management Assistance Program	M-05029993	97.042	10,829
Total Department of Homeland Security			<u>2,637,410</u>
U.S. Department of Housing & Urban Development			
<i>Passed through Governor's Office for Local Development</i>			
Community Development Block Grant	05-013	14.228	17,500
U.S. Department of Justice			
Law Enforcemt Technology Communication Project	2005CKWX0338	16.710	184,486
U.S. Department of Health and Human Services			
<i>Passed through KY Board of Elections</i>			
Voting Access for Individuals with Disabilities	n/a	93.617	322,214 ***
U.S. Department of Agriculture			
<i>Passed through KY Dept of Agriculture</i>			
Food Donation	n/a	10.550	<u>3,296</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>3,164,906</u>

*Tested as Major Program ****

MADISON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Madison County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 – Food Donation Programs

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities donated. The U.S. Department of Agriculture donated commodities valued at \$3,296.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132
www.rosscpas.com

The Honorable Kent Clark, Madison County Judge/Executive
Members of the Madison County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Madison County, Kentucky as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table contents and have issued our report thereon dated August 18, 2006. Madison County's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Madison County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Madison County's financial statements as of June 30, 2006, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office of Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company PLLC

Audit fieldwork completed-
August 18, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299-1837
Telephone (502) 499-9088
Facsimile (502) 499-9132
www.rosscpas.com

The Honorable Kent Clark, Madison County Judge/Executive
Members of the Madison County Fiscal Court

Report On Compliance With Requirements Applicable
To Each Major Program And Internal Control Over
Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Madison County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Madison County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Madison County's management. Our responsibility is to express an opinion on Madison County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Madison County's compliance with those requirements.

In our opinion, Madison County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Madison County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Madison County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

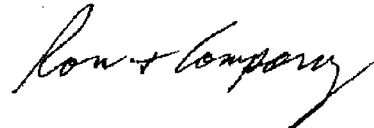
Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit Fieldwork Completed -
August 18, 2006

APPENDIX A

CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MADISON COUNTY FISCAL COURT

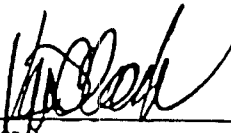
For The Fiscal Year Ended
June 30, 2006

Appendix A

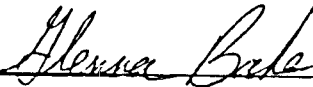
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MADISON COUNTY FISCAL COURT

For the Fiscal Year Ended June 30, 2006

The Madison County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge Executive



Name
County Treasurer